

Message Text

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ACTION NEA-10

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COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06
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E.O. 11652: N/A

TAGS: EFIN, EG

SUBJECT: GOE WIDENS TRANSACTONS AT PARALLEL MARKET RATE

1. BY WAY OF MINISTERIAL DECREE NO. 65 OF 1977, MINISTER OF ECONOMY AND ECONOMIC COOPERATION HAS APPARENTLY AMENDED FOREGIN EXCHANGE TRANSACTION LAW OF 1976 TO FURTHER INCREASE NUMBER AND KINDS OF TRANSACTIONS WHICH TAKE PLACE AT PARALLEL MARKET RATE (\$1.00 EQUALS LE .70). IN SO DOING, MINISTER HAS CLARIFIED RATE AT WHICH ALL PROFITS WILL BE REPATRIATED AND THUS HAS MOVED A STEP CLOSER TO RECOMMENDED OPTIMUM RATE FOR INFLOW AND OUTFLOW OF INVESTMENT FUNDS WHICH HAS BEEN URGED FOR SEVERAL YEARS. UNFORTUNATELY, IT IS UNCLEAR TO BANKING CONTRACTS IF DECREE HAS ACTIVELY TAKEN EFFECT. FULL-SERVICE AMERICAN BANKS ARE ADVISING PATRONS NOT TO TRANSFER LARGE SUMS UNTIL TJEY CAN CLARIFY SITUATION.

2. ARTICLE 47 OF LAW 96 (1976) HAS BEEN AMENDED TO STATE THAT ALL RECEIPTS AND PAYMENTS FOR INVISIBLE PURPOSES SHALL BE EFFECTED AT PARALLEL MARKET RATE EXCEPT FOLLOWING:

A. SUEZ CANAL PASSAGE TOLLS AND PROCEEDS OF OPERATION OF THE "SUMED" PIPELINE.

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B. SHIPPING COSTS AND INSURANCE WITH RESPECT TO IMPORTS THAT ARE TREATED UNDER THE EXCHANGE RATES OF THE OFFICIAL MARKET.

C. GENERAL AND INTERNATIONAL COMMITMENTS AS WELL AS INSTALLMENTS AND INTERESTS DUE WITH RESPECT TO OPERATIONS TRANSACTED UNDER THE EXCHANGE RATE OF THE OFFICIAL MARKET.

D. EXPENSES OF EGYPTIAN DIPLOMATIC MISSIONS ABROAD.

E. EXPENSES OF EDUCATIONAL MISSIONS ABROAD.

F. EXPENSES ON EXPORTS, THE VALUE OF WHICH IS PAID IN ACCORDANCE WITH THE OFFICIAL MARKET.

3. ARTICLE 48 HAS BEEN AMENDED TO PROVIDE THAT RECEIPTS FROM VISIBLES (EXPORTS) SHALL BE EFFECTED AT PARALLEL MARKET RATE WITH EXCEPTION OF RECEIPTS FROM RAW COTTON, RICE AND BROKEN RICE, PETROLEUM AND ITS PRODUCTS, AND FOREIGN GOODS REEXPORTED WHOSE VALUE HAS BEEN PREVIOUSLY TRANSFERRED AT OFFICIAL RATE.

4. ONE OF MAJOR RESULTS OF AMENDMENTS IS THAT PREVIOUSLY ESTABLISHED BUSINESSES, REPRESENTATIVE OFFICES, INVESTMENT PROJECTS AND DIPLOMATIC MISSIONS IN EGYPT CAN NOW DEAL AT SUBSTANTIALLY MORE FAVORABLE PARALLEL MARKET RATE WHEN TRANSFERRING OPERATING FUNDS FROM ABROAD.

5. BANKING CONTACTS TELL US THAT MOVE IS SEEN AS PRELUDE TO AMENDMENT OF FOREIGN INVESTMENT LAW, SINCE IT IS NOW A FACT THAT REPATRIATION OF ALL PROFITS WILL HAVE TO BE AT PARALLEL MARKET RATE. HOW DECREE WILL AFFECT EXISTING COMPANIES, LIKE PFIZER AND ARAB ALUMINUM COMPANY REMAINS TO BE SEEN. NATIONAL BANK OF EGYPT FOREIGN RELATIONS MANAGER HAS TOLD US THAT WHILE PROFITS OF THESE EXISTING INVESTMENTS WILL HAVE TO BE TRANSFERRED AT PARALLEL MARKET RATE, ARRANGEMENTS WILL BE MADE TO MAINTAIN ORIGINAL DOLLAR VALUE OF CAPITAL INITIALLY LIMITED OFFICIAL USE

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TRANSFERRED AT OFFICIAL RATE WHEN AND IF CAPITAL IS REMOVED FROM EGYPT, ALTHOUGH EXACT MECHANISM IS NOT CLEAR.

6. COMMENT: IF AND WHEN AMENDMENTS DESCRIBED ABOVE TAKE PLACE, GOE WILL HAVE TAKEN ANOTHER IN A SERIES OF MAJOR STEPS TO IMPLEMENT LONG DISCUSSED ECONOMIC REFORMS.
MATTHEWS

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Sent Date: 25-Mar-1977 12:00:00 am
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